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Cambodian Microfinance: A Case of Successful Commercialization?

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Abstract

This article examines the debate about *mission drift* associated with the commercialization of microfinance. Mission drift refers broadly to de-emphasis of microfinance's efforts to serve the poorer section of the population in search of greater financial benefits. Examining this debate will be highly relevant to an interdisciplinary study of poverty reduction because what is debated is fundamentally concerned with a balance between social concern and economic principles entailed in any poverty reduction intervention. ACLEDA Bank of Cambodia, which is widely regarded as one of the most successful cases of a microfinance NGO's transformation to a commercial bank in Asia, is used as a case study. On the basis of field data analysis, the article concludes that ACLEDA Bank remains committed to serving poor customers after its transformation from an NGO. It argues, however, that while commercialization of microfinance, in itself, does not have to cause mission drift, an unnecessarily large number of poor people could be excluded from commercial microfinance when 'the economically active poor' are misrepresented as 'microentrepreneurs'. In the case of ACLEDA Bank, 'the economically active poor' are indeed misrepresented as 'microentrepreneurs' in its official discourse. However, large-scale mission drift has been prevented so far by the field-level discretion exercised by its credit officers. Consequently, the poor who are being served by ACLEDA Bank are not so much the people who have entrepreneurial ideas as those whose household members have regular, stable income sources.

Introduction

This article examines the debate about mission drift associated with the commercialization of microfinance by unpacking the notion of 'the economically active poor'. The debate reflects one of the fundamental questions about a balance between social mission and economic principles that underlie many of the poverty reduction strategies.

Whether the commercial approach to microfinance causes erosion of social mission has been debated ever since the trend to transform microfinance NGOs into regulated financial institutions gained momentum in the 1990s. Drawing upon the experience of Prodem, a microfinance NGO in Bolivia which was successfully transformed into BancoSol, a commercial bank, the idea of transforming microfinance NGOs to regulated financial institutions spread quickly across Latin America and beyond. In Asia, fifteen NGOs in six countries, i.e., the Philippines, Cambodia, India, Nepal, Mongolia and Pakistan, have transformed themselves into regulated financial institutions (Fernando 2004, p. 1).

Commercial microfinance in Cambodia is taken as a case study for this article. The microfinance industry in Cambodia has made great strides in recent years. ACLEDA Bank of Cambodia in particular is widely regarded as one of the best examples of successful commercialization of microfinance NGOs in Asia (Fernando 2004, p. 6). On the basis of fieldwork conducted in the three provinces of Takeo (2005), Kampot (2006) and Sihanoukville (2007), each lasting for one to two weeks[1], this article examines ACLEDA Bank's claim that it is serving the entrepreneurial poor after its transformation from an NGO. Assessing mission drift in terms of differences of the poverty status of its clients before and after ACLEDA's transformation into a commercial bank is beyond the scope of this article. Instead, it investigates whether ACLEDA Bank's emphasis on lending to the entrepreneurs is conducive to the microfinance industry's recent shift towards lending to 'the economically active poor'. It will be argued that commercialization of microfinance *per se* does not have to cause mission drift. An unnecessarily large number of poor people will, however, bear the risk of being excluded from commercial microfinance when 'the economically active poor' are misrepresented as 'microentrepreneurs' by the commercialized microfinance institutions (MFIs). The article further argues that, in the case of ACLEDA Bank, the exclusion is partially prevented by the field-level discretion exercised by its credit officers, who base their lending criteria on regularity of household income.

An overview of the microfinance industry

Before discussing the issue of commercialization, let us take a brief look at the microfinance industry. Microfinance can be defined as "the supply of loans, savings, and other basic financial services to the poor" (CGAP 2007/11/22). Who the poor are should be defined locally, and is inevitably relative. Microfinance operates in the United States as well as in Bangladesh. As long as financial services attempt to address the needs of poor people in their respective societies, the services can be considered microfinance. There is no universal agreement about particular size of loans or deposits in order to qualify as microfinance. Loan size in many developing countries ranges from anything between $1 to $1,000.

The history of microfinance is not new. Savings and credit groups have existed for centuries in many parts of the world. The relatively recent popularity of microfinance as a poverty reduction tool started in the mid-1970s when innovative individuals such as Muhammad Yunus of Bangladesh started experimental projects to prove that poor people are *bankable*. In those days, the focus was mainly on microcredit. Since the 1980s, microfinance institutions in general, and microcredit institutions in particular, have proliferated. In 2005, 3,133 microcredit institutions are reaching over 113 million clients, according to the Microcredit Summit Campaign[2] (Daley-Harris 2006, p. 2). The majority of these institutions serve fewer than 2,500 clients, while 49 institutions and three networks serve more than 100,000 clients each (UN 2006, pp. 13–15). Although the campaign's goal of reaching 100 million of the world's poorest families by 2005 was not achieved, the goal was well within reach, according to the campaigners (Daley-Harris 2006). 'The poorest' are defined by the campaigners as "those who are in the bottom half of those living below their nation's poverty line, or any of the more than 1 billion people who live on less than US$1 a day adjusted for purchasing power parity (PPP)" (Daley-Harris 2006, p. 1). Commercialization of microfinance is thought to have significantly contributed to the increasing outreach to the poor, if not the poorest.

The causal relationship between microfinance and poverty reduction is highly contested, and is still largely a matter of debate. This can be ascribed to the methodological rigor required to prove causality between microfinance and poverty reduction. While many impact studies have been attempted in the past, suggesting positive causality, there has yet to emerge a consensus on their reliability. The lack of consensus reflects the methodological difficulty inherent in evaluating the effects of money that is fungible and those of the services which are used with different degrees of intensity by different customers (Armendariz de Aghion and Morduch 2005, p. 222). Dichter (2007) questions the assumed sequence of microcredit and growth by drawing on the economic history of rich countries, and points out that the majority of the poor in today's rich countries as well as those in developing countries have not been entrepreneurs, and that they have been using credit, if available, largely for consumption or cash flow smoothing. He argues hence that massive poverty reduction does not result from microcredit becoming available for income generation. Instead, the process of development creates jobs and makes "the working poor an attractive target for financial services, beginning with savings and then moving toward consumption so that goods produced would have a wider market" (p. 11).

While the debate concerning the causality between microfinance and poverty reduction continues, the microfinance industry has been making rapid progress. It is due to the fact that a consensus of opinion has emerged that, regardless of the question of impact, poor people undeniably find microfinance useful and that safe, reliable, and useful financial services should be made available on a sustainable basis to the largest number of them. This is the background against which commercialization of microfinance has gained significant influence in recent years.

Commercial microfinance and its social mission

The meaning of commercialization needs to be clarified for the purpose of this article. Following Christen and Drake (2002, p. 4), I use the term, 'commercialization', to mean "the movement of microfinance out of the heavily donor-dependent arena of subsidized operations into one in which microfinance institutions 'manage on a business basis' as part of the regulated financial system". Hence, commercialized MFIs aim to finance all micro loans by savings, commercial debts, for-profit investment, and retained earnings.

While subsizised microfinance operations increasingly adopt commercial principles, some of the commercial financial institutions are trying to enter the microfinance market. International commercial banks such as Barclays Plc. and ANZ, and local commercial banks such as ICICI Bank in India or Stanbic Bank in Uganda are actively seeking involvement in microfinance through acquisition or in partnership with an NGO or a local self-help group, with or without the incentive of government subsidies (UN 2006, pp. 55–56).

Both of these trends, i.e., non-profit microfinance organizations turning into commercial entities and commercial banks making inroads into the microfinance market *at the bottom of the pyramid* (Prahalad 2005), are not without controversies. The biggest controversy revolves around the question of mission drift. Mission drift in this context is to be understood as "de-emphasis of social mission in pursuit of higher financial returns" (Woller, 2002, p. 15). Social mission refers broadly to efforts to help poor people through financial services. This is usually assessed in terms of the depth of outreach. If a commercialized MFI abandons its earlier target market in favour of the less poor, its social mission is considered to be undermined. The question whether the commercialization of microfinance leads to mission drift can thus be restated as whether delivering microfinance on a business basis erodes its commitment to reaching the poor, especially the very poor.

At a deeper level, this question points to the precarious balance between MFIs' financial and social performances. Different views on how the two should be balanced can be represented by two approaches. One is the poverty lending approach which sees microfinance primarily as a developmental tool for improving the conditions of poor people, especially the extremely poor among them. If subsidies are required to that end, we should not exclude the possibility of using them (Morduch 2006). The other is the financial systems approach which views the provision of financial services as part of the basic services which should be made available to the maximum number of people, including the poor, on a sustainable basis. An extension of the second position is the argument that poor people should be given access to financial services that they find useful, whether it has direct impact on poverty reduction or not. This reflects the fundamental belief that just as we in the rich world find access to banking services useful, poor people would also find them useful. In the same way as using banks does not necessarily make us richer or poorer, poor people's access to banking services, in itself, cannot be expected to guarantee poverty reduction either.

The developmental, or social, concern of the poverty lending approach calls into question the rationale of microfinance if its effects do not contribute to poverty reduction or any other social change that positively influences the poor. Education, health, and women's empowerment, for example, have been strongly associated with the social performance of microfinance. The financial systems approach, on the other hand, emphasizes depth and width of outreach, and the quality of services offered to customers. If the services offered end up improving the socio-economic conditions of poor people, it would be so much better. But the priority is attached to building the system by which sustained provision of high quality financial services to the maximum number of poor people becomes possible. The financial systems approach has provided the ideological backing for the commercialization of microfinance (Robinson 2001, pp. 22–35).

Microfinance and the economically active poor

In the process of commercialization, many of the MFIs have refocused its target on '*the economically active poor*' rather than 'the poorest of the poor'. This refocusing tendency prevailing in the 1990s marks a significant shift away from microfinance's traditional target market which has strongly been associated with 'the poorest of the poor'. This shift, however, can be seen not so much a reflection of mission change as an admission - given the industry's twenty years of experience - of whom microfinance has actually been helping all along.

While arguing the benefit of commercial microfinance, Robinson emphasizes that credit is a powerful tool for poverty reduction "when it is made available to the creditworthy among the economically active poor participating in at least a partial cash economy - people with the ability to use loans and the willingness to repay them" (2001, p. 20). She further explains the relationship between income levels of the poor and the types of financial services (p. 21), and argues that commercial microcredit and interest-bearing savings services work best with the economically active poor, but not with the extremely poor. For the latter, subsidized provision of social services in the form of food and water, shelter, medicine and skills training are needed more than financial services. Seen from this perspective, it is obvious that commercialization of microfinance is accompanied by the re-defined mission to serve 'the economically active poor' instead of 'the extremely poor', or 'the poorest of the poor'. Robinson refers to the emergence in the 1990s of a new generation of sustainable, profitable microfinance offered to economically active poor people as *the microfinance revolution*. Whether this represents erosion of microfinance's social mission is a matter of considerable debate.

One of the difficulties in assessing mission drift lies in the fact that the dividing line between the economically active poor and the extremely poor is often ambiguous. Robinson places the majority of the economically active poor above the nation's official poverty line. The official poverty line varies from country to country, but the economically active poor, in general, are described by her as those who "have sufficient employment and income to meet basic nutrition, housing, and health needs" (p. 20). The extremely poor, on the other hand, are explained as those typically living on less than US$0.75 a day adjusted for purchasing power parity.

The reality is more complex than to allow for a simple distinction between the two. As Robinson (2001) admits, it is possible that the same household moves from one group to the other over a long stretch of time. Besides, different degrees of poverty are known to exist even within a single household. To further complicate the matter, an economically active person may live in extreme poverty if one's work is not properly compensated for. This last point is of crucial importance because, unlike Robinson's claim that this reflects one of poverty's many anomalies, it, in fact, applies to the majority of poor people in rural areas of low-income countries. These people are struggling to survive by being economically active within cash economies and yet, finding it difficult to have their basic needs met. All over the world, the majority of the twelve billion poor people are likely to fall within this category. If the majority of the world's poor are economically active and extremely poor at the same time, how are we to understand whom commercial microfinance should be made available to?

In Cambodia, people living under US$0.45[3] per day are estimated to constitute 35 percent of the population in 2004 (World Bank 2007). In rural areas, the percentage is expected to be much higher. Are these people to be considered creditworthy and be served by commercial microfinance in Cambodia?

ACLEDA Bank of Cambodia

The Association of Cambodian Local Economic Development Agencies (ACLEDA) is recognized as Cambodia's leading provider of commercial microfinance[4]. It was started in 1993 as a local NGO with an aim to help micro and small enterprises through credit provision (BWTP 2007). At its early stages, it received financial and technical assistance from UNDP and ILO. In 2000, it gained a licence from the National Bank of Cambodia to operate as a specialized bank. This enabled it to collect savings from the public and seek commercial funding in capital markets. In 2003, it was licensed as a full commercial bank and officially transformed into ACLEDA Bank Plc. As of 31st July 2007, it operates in Cambodia's 20 provinces and four municipalities with the number of offices totalling 167, serving 171,345 active clients (Table 1)[5].

According to its founder, In Channy, ACLEDA Bank's mission is "to market a superior nationwide

Table 1 ACLEDA branch network and personnel

Operation Division	1
Branch Offices (Province and City Offices)	38
Sub-Branch Offices (District Offices)	45
Service Posts	83
Total Number of Offices	**167**
Number of Male Staff	2,933
Number of Female Staff	1,089
Total Number of Staff	**4,022**

(ACLEDA Bank Leaflet 2007)

delivery of high-quality bank products and services at premium prices to meet the needs of the financial and commercial sector and the general public throughout Cambodia" (n.d., p. 2). In particular, it intends to serve "the entrepreneurs of micro and small businesses, and medium sized enterprises; and the general public who are living in both urban and rural areas including the farmers in Cambodia" (p. 3). When ACLEDA NGO started its microfinance operations in 1993, its mission was "to provide services — both business development services and credit to micro and small businesses in a post-conflict environment" (Clark 2005, p. 225). Arguably, ACLEDA's target market remains the same before and after its transformation from an NGO to a commercial bank, while its operational strategy has changed to include a wider group of poor people in addition to demoralized soldiers and victims of war (Clark 2005).

Whether the target market has remained the same or not, it is clear that ACLEDA Bank's mission emphasizes business orientation and *entrepreneurship*. Clark argues that its operational strategy has shifted from "targeting people for who they were" to targeting them "for what they could achieve, no matter how poor they were" (Clark, p. 65). In line with this strategy, ACLEDA staff pay home visits and assess loan applicants' *five C's*, i.e., i) *Capital*, ii) *Capacity* (entrepreneurship), iii) *Character*, iv) *Conditions* (business environment and social responsibility), and v) *Collateral* (assets). Along with these five C's, they also check *three R's*, i.e., i) *Right clients* (whether they have sound business ideas or not), ii) *Right loan size*, and iii) *Right time* (the ability to repay on time). Although they rarely reject loan applications, they deal with what they judge to be risky applications by curtailing the size of loans.

ACLEDA Bank's loan products

ACLEDA Bank offers four main types of loans, i.e. micro business loans, small business loans, medium/enterprise loans, and personal loans (Table 2).

As shown below in Tables 2 and 3, micro business loans have the smallest average loan size, and 77 percent of all the active borrowers are taking these loans[6]. ACLEDA's micro business loans can be further divided into two types. One is the loans delivered to those who cannot provide physical collateral. These clients are requested to form a group of two to ten people. Although each person will borrow individually, group members are supposed to guarantee each other's repayment. The repayment schedule is biweekly, and loan size ranges between $12.5 and $500 with a monthly interest rate of 3 to 3.25% (18% to 19.5% per annum) on a declining balance. The other is the loans delivered to individual clients who can provide collateral in the form of land title or other types of assets. The loan size is between $500 and $1,500, and the repayment schedule is monthly with a rate of interest at three percent. The size of ACLEDA's small business loans ranges between $1,500 and $10,000, while that of medium business loans is above $10,000. Given the loan size and the non-requirement for

Table 2 The number of borrowers according to loan types

Micro Business Loans	132,272 (77.2%)
Small Business Loans	29,089 (17.0%)
Medium/Enterprise Loans	3,895 (2.3%)
Personal Loans	3,142 (1.8%)
Others	2,947 (1.7%)
Total Number of Active Borrowers	**171,345 (100.0%)**

(ACLEDA Bank Leaflet 2007)

Table 3 Average loan size (July 2007)

Micro Business Loans	US$410
Small Business Loans	US$2,926
Medium/Enterprise Loans	US$28,260
Personal Loans	US$2,461
Others	US$17,082
Total Average Loan Size	**US$1,855**

(ACLEDA Bank Leaflet 2007)

collateral, we can generally assume that ACLEDA Bank's poorer clients are concentrated among those who take micro business loans through solidarity groups. There is an additional loan category called 'Personal Loans' which are to be used for consumption purposes such as house repair and are taken mostly by the relatively wealthy customers.

It is not easy to know the exact proportion of the clients who are taking micro business loans through solidarity groups because ACLEDA Bank's official documents do not reveal disaggregated figures for the two types of micro business loans. A recent publication on the success of ACLEDA Bank written by Clark (2005) does not offer the breakdown either. Below are the figures obtained at our special request at ACLEDA Bank's Sihanoukville Branch Office, showing the proportion of micro *group* loans outstanding.

What these figures indicate is the fact that non-collateralized micro business loans provided to the poor through solidarity groups remain an important part of ACLEDA's loan portfolio. The proportion of these loans has, in fact, been growing since ACLEDA NGO became a regulated financial institution in 2000. Because poor people, given the choice, generally prefer borrowing individually to borrowing through solidarity groups[7], the fact that micro group loans remains strong in ACLEDA Bank's loan portfolio suggests that it continues to serve the people who are too poor to provide physical collateral.

Table 4 The number of loans outstanding for micro group loans and all others for selected years

Year	No. of micro group loans outstanding	No. of all loans outstanding
1997 (Nov.)	326 (16.1%)	2,020
2000 (Nov.)	1,355 (29.4%)	4,611
2001 (Nov.)	1,284 (31.6%)	4,059
2003 (Nov.)	1,212 (32.5%)	3,733
2004 (Nov.)	1,558 (35.8%)	4,349
2005 (Dec.)	1,840 (39.5%)	4,653

(ACLEDA Bank, Sihanoukville Branch)

Table 5 The number and the value of loans outstanding according to loan types (Aug.2007)

	Type of loans	No. of loans outstanding	Value of loans outstanding	Average loan size
Cambodian Riel	Micro (group loans)	4,588	3,121,964,200 ($780,491)	680,463 ($170)
	Micro (individual loans)	670	1,768,128,300 ($442,032)	2,638,997 ($660)
	Small	150	915,061,900 ($228,765)	6,100,413 ($1,525)
	Personal	-	-	-
US Dollars	Micro (groups)	-	-	-
	Micro (individuals)	78	54,020	693
	Small	1,030	2,158,588	2,096
	Medium	122	2,247,195	18,420
	Personal	20	35,533.40	1,777

(ACLEDA Bank, Sihanoukville Branch)

Has ACLEDA's mission drifted?

Given ACLEDA Bank's continued provision of micro group loans to poor people, can we conclude that ACLEDA NGO's social mission has been carried over to ACLEDA Bank? There is little doubt, at least before the transformation, that many of ACLEDA's clients were indeed poor or very poor. According to Clark (2005, p. 62), the average daily per capita income of its microcredit clients was riel 937 (USD 0.37) in 1993–94. The average daily per capita income of its small business borrowers was riel 1,875 (USD 0.75), slightly above the national poverty line of USD 0.63 per capita per day. Notwithstanding its clients' poverty status, ACLEDA Bank's official discourse has been to help potential *microentrepreneurs* as discussed earlier. In my personal interview of its founder, In Channy (2007/8/8), he stressed its focus on people with business ideas, be they rich or poor. In Sihanoukville, many of the poor clients taking micro group loans are small fishermen living along the coastline, food processors and vendors living near the market, and motorbike taxi drivers working in town. Can these micro business operators be equated with 'the economically active poor' who are strongly associated with *the microfinance revolution* discussed earlier?

To understand ACLEDA's performance in light of the wider debate on the microfinance revolution, the question should be centred on to what extent micro and small entrepreneurs served by ACLEDA Bank overlap with "the creditworthy among the economically active poor participating in at least a partial cash economy—people with the ability to use loans and the willingness to repay them" (Robinson, 2001, p. 20). Inasmuch as commercialized MFIs aim to serve the economically active poor and are serving them, the question of mission drift should not arise, even if there are people among the poor who are not economically active and are not served by the MFIs. A question arises when the MFIs avoid serving a substantial number of the extremely poor people who are nevertheless economically active and have both the ability and the willingness to repay micro loans.

Flexible loan use

Another dimension to this question is the fact that the notion of microcredit as investment capital has undergone significant change since the 1980's when Grameen Bank of Bangladesh popularised microcredit. The economically active poor have since been found putting loans to various uses not necessarily confined to immediately productive investment. They have, moreover, been found benefiting from the flexible use of loans by smoothening household consumption with increased financial liquidity (Ito 1999). The situation is far from unique in which a commercial MFI lends to people who derive part of their income from petty trade, while spending micro loans on repairing their houses and repaying them out of income from wage labour. What with fungibility of credit and with multiple sources of poor people's income, the increasingly dominant view on loan use is that limiting the purpose of loan use to productive investment is not necessarily wise nor realistic (Dichter 2007; Rutherford 2000).

Given the current thinking on loan use, what MFIs ought to be concerned about is whether an economically active poor person is able and willing to make good use of the financial services and to repay the loans one takes, even if they know the client is not going to invest them immediately in income generating activities. As Greeley argues (2005), most poor people would be able to benefit from financial services, except for *a very small proportion* of 'the extremely poor' who, according to Robinson (2001, p. 20), are typically living below 75 cents per day. This tiny proportion of the extremely poor people who will not benefit from financial services are the ones who are very old, handicapped or sick, and are - or ought to be - dependent on economic assistance of other people or institutions. There surely are people among the poor who are unreliable and would not obey the rules set by the MFIs just as there are such people among the better-off. This problem has very little to do with whether they are entrepreneurial or not. Hence, MFIs' assessment on poor people's creditworthiness should really be based not so much on their business orientation or on-going business activities as on the regularity and sustainability of their household income.

Field-level implementation

Luckily, ACLEDA Bank's credit officers on the ground, as is often the case with fieldworkers of any development activities, are highly pragmatic. They regularly exercise their own discretion in deciding who is creditworthy. In their view, a client representing a household with some regular source of income is a creditworthy customer (Personal communications 2007/8/11–13). In the same vein, credit officers tend to consider able bodied landless men and women engaged in wage labour ineligible for micro business loans unless they have somebody else in the household who earns steady, regular income. This is inevitable, given the irregular nature of wage labour, regardless of whether the landless wage labourers themselves are able and willing to repay loans. As a consequence, many of them turn to private moneylenders or their employers when they face emergency financial needs. Typically, they receive advance payment from their employers, and agree to work for them without wages when labour is required. The situation was frequently observed in Takeo. A group of ACLEDA Bank clients I interviewed in Sihanoukville also happened to be migrants from Takeo. They had migrated to Sihanoukville a decade ago, and were living on small plots of land near the main market and were selling home-made cakes in the market. Hardworking as they were then, they must have been economically active when they had been farming in Takeo. But there had been no opportunities nor financial services available to enable them to exercise entrepreneurship there.

There is nothing wrong with credit officers' exercising their discretion in this regard. From the point of view of ensuring sustainability of operations, there is a very good reason why MFIs generally see landless wage labourers and small farmers as credit risks. What is at issue, however, is the fact that they officially claim that they are serving the economically active poor, while in fact a large number of the economically active men and women do not run micro-enterprises. Some of these people are farmers, agricultural wage labourers, or construction workers, while others migrate to cities and send remittances home. It is important to recognize that a focus on the entrepreneurial poor is very different from that on the economically active poor. The latter includes a substantial proportion of the landless rural households without business ideas. According to the household socio-economic survey 1995–96 conducted by the Mecong River Commission, 24% of the households in Cambodia are estimated to be landless (Ramamurthy, et al. 2001, p. 34). As long as they are surviving, it is natural to assume that the majority of them are economically active. It is unlikely, however, that all of them are entrepreneurs[8].

Representation of the economically active poor as microentrepreneurs

Who then are the entrepreneurs? An 'entrepreneur' usually refers to a person who initiates a business enterprise while accepting certain risks. In rural areas of developing countries, many poor people are economically active but are unlikely to possess start-up capital to organise income generating activities. This of course does not mean that they have no income generating activities. It is widely documented that rural poor households in developing countries depend on multiple sources of income. They typically depend on a combination of income sources including farming, poultry or livestock rearing, petty trade, remittances, and wage labour. But lack of capital is no doubt a significant constraint on their chances of expanding the current income earning activities to get out of poverty. To overcome this constraint, it would be crucial for them to raise capital. A poor person who raises capital and takes the risk of investing it in new or existing income generating activity may well be regarded as a microentrepreneur in this context.

The definition has often been loosely interpreted, however. The fact that many of the economically active poor households have multiple sources of income, including some forms of off-farm income generating activities, has certainly contributed to the broader understanding that these rural households can, by definition, be described as microentrepreneurs. Even if they are not engaged in off-farm business activities, the fact that they are managing multiple income sources of the household could be taken to prove their entrepreneurial qualities. From this point of view, almost every economically active poor household is an entrepreneurial venture, be it dependent primarily on business or wage labour. It is in this sense only that commercial MFIs' claim to target at microentrepreneurs can be justified.

In reality, when to apply the notion of entrepreneurship is decided on arbitrarily by credit officers as well as the clients themselves. In the case of ACLEDA Bank, it is the assurances of a steady, regular flow of household income, rather than the existence of business enterprises as such, that both credit officers and clients look on as conditions for giving or taking ACLEDA loans. The story of a fisherman I interviewed (2007/8/12) in Sihanoukville provides a good case in point. The fisherman bought a second-hand fishing boat on credit from a wholesale fish buyer a year ago, despite the fact that he was an ACLEDA client at the time. He was then working as hired captain of a middle-sized fishing boat, but wanted to go independent by buying his own small boat. His income being more or less steady while working as hired captain, he could have applied for an ACLEDA loan to purchase the boat. He decided against it because once he would start operating his one-man fishing boat, his income would not be so regular. As a result of the credit purchase from a wholesale fish buyer, he now sells all his catch to this particular buyer at discount rates until the total cost of $150 is recovered by the buyer. The fisherman figures that, although the credit purchase proves to be more costly than taking a loan from ACLEDA Bank, it is still the safer of the two, given the fact that his repayment is tied to the catch he actually makes.

Savings services for the economically active poor

If poor people without regular household income pose credit risks, commercial finance could still provide them with savings facilities. Failure to provide savings facilities by Cambodian MFIs has been seen as a big problem. According to Flaming and others (2005, p. 6), the total deposits of the registered MFIs and NGOs combined were less than five percent of their lending portfolios in June 2004. The same authors cite Cambodia Community Savings Fund (CCSF) and ACLEDA Bank as two exceptions with relatively successful savings mobilization (Table 6).

Table 6 Savings portfolio in Cambodia for selected years (in US dollars)

	1995	1997	2002	2003	2004 (June)
ACLEDA	n/a	n/a	5,678,728	13,160,685	21,603,048
Licensed MFIs	n/a	n/a	143,433	795,065	1,124,129
Registered NGOs	n/a	n/a	730,076	811,475	138,074
Total savings portfolio	n/a	n/a	6,552,238	14,767,225	22,865,251
Total Depositors	n/a	n/a	107,120	133,628	155,137

(Flaming, et al. 2005, p.5)

While ACLEDA Bank's savings portfolio has quadrupled between 2002 and 2004, very few micro business loan clients of ACLEDA Bank have ever opened a deposit account. As of July 2007, Sihanoukville Branch Office has 5,548 deposit accounts. The majority of these accounts are for deposits in US dollars, indicating that poor clients who rely on financial transactions almost entirely in local currency are not utilising savings services.

Slow progress of savings mobilization in Cambodia can be explained partially by the short length of time since the licensed MFIs - including ACLEDA Bank when it was a licensed specialized bank - were authorised to mobilise savings. More serious is the general lack of trust people, especially in rural areas, exhibit towards financial institutions. The memory of bank collapse during the conflict period is still fresh in people's memory. Surplus money tends to be invested in livestock, gold, and other household assets. Despite these difficulties, the provision of savings services can generally be considered the less risky way than the provision of credit to help the economically active, but extremely poor people.

Conclusion

By examining the case of ACLEDA Bank of Cambodia, this article has drawn attention to the distinction between the two categories of poor people, i.e., the economically active poor and the microentrepreneurs. The former refers to poor people engaged in some form of economic activities including wage labour and, in some cases, micro-scale farming and fishing. The latter are the people engaged in micro-scale *business enterprises* born out of their own initiatives. Many individuals comprising the two groups overlap, but the groups are by no means identical. The difference is overshadowed by the unquestioning representation by commercialized MFIs of 'the economically active poor' as 'microentreprenurs'.

While ACLEDA Bank apparently continues to serve the poorer segment of the population and avoids 'mission drift' associated with commercialization of microfinance, its official rhetoric of microenterprise development is not always practiced on the ground. This is due partly to the discretion used by credit officers who screen potential customers on the basis of regularity of household income. While this generally works to the benefit of poor people not all of whom are necessarily entrepreneurial, it implies that poor households without regular income are excluded, regardless of whether they are being economically active or not. To further avoid the risk of mission drift and ensure inclusive microfinance, strengthening poor people's access to savings services would be essential. This remains the biggest challenge ACLEDA Bank and many other commercial MFIs in Cambodia face.

Notes

1 Fieldwork in Takeo (2005) and Kampot (2006) was carried out as part of the Overseas Fieldwork Program of the Graduate School of International Development at Nagoya University. Fieldwork in Sihanoukville was conducted in August 2007 in cooperation with Heng Sophea. I am deeply indebted to all the ACLEDA staff working in Sihanoukvill who offered generous help.

2 The Microcredit Summit Campaign is a project of a U.S. -based advocacy organization called the RESULTS Educational Fund, which aimed to reach 100 million poorest families in the world by the year 2005.

3 The national poverty line of Cambodia for 2004 is 1,826 riels per person per day. At 2004 exchange rates, this amounts to about $0.45 per person per day (World Bank 2007/11/24).

4 See Fernando (2004).

5 Cambodia has twenty provinces and four province-level municipalities. Provinces are subdivided into districts and districts are subdivided into communes.

6 Loan size is not always the best indicator for the poverty status of microfinance clients. However, it remains a useful approximate proxy for poverty lending and serves the current purpose. See Dunford (2002) and Woller (2002) on the use of loan size as a proxy for borrowers' poverty status.

7 This was apparent when we interviewed villagers who had any experience of borrowing from MFIs in Takeo (2005), Kampot (2006), and Sihanoukville (2007). It is due to high transaction costs born by group members.

8 According to Banerjee and Duflo (2007), the most common occupation for the poor in Udaipur, India, is working

as a daily laborer: 98 percent of households living under $1 per day in rural areas report doing this and 74 percent claim it is their main source of earnings.

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